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SUBJECT: SOUTHWEST NOVA SCOTIA STRUGGLES TO DIVERSIFY ITS ECONOMY

1. During a recent visit to southwestern Nova Scotia, CG met with fishery, lumber, business and economic development representatives to discuss current prospects for the region. The area around Yarmouth, NS, remains heavily dependent on income from the fishery (approximately 70% according to most estimates) as well as ferry connections to Maine which bring in tourist dollars primarily in the summer months. The region is aggressively courting business and government to add jobs or, in some cases, fighting hard simply to retain those that now exist. In many ways Yarmouth and environs are typical of small to medium sized communities throughout the Atlantic region.

FIRST THE GOOD NEWS

2. From the fishery, recent news has been good. The lobster fishery and associated businesses were worth approximately C\$200 million to the local economy, clams about C\$10 million. Stocks in both cases seem to be doing well and are being harvested at sustainable levels. The haddock population has unexpectedly rebounded to such an extent that local fish packers expect longer seasons and significantly higher harvests over the next five years. They are now working to re-develop markets for fresh haddock in the U.S. and elsewhere after a number of lean years. The fisheries in Maritime Canada and New England are quite integrated, with products passing in both directions during the year depending on which areas are open for fishing. Maine lobsters, for example, are often shipped to Yarmouth for live storage during the height of the Maine season, then shipped back to the U.S. during the off-season. Processing and packing plants in Prince Edward Island buy U.S. and Canadian lobsters not suitable for live sale and cook and can the meat. This ready market helps support prices on both sides of the border. A Canadian firm, Connors Brothers, has invested heavily in sardine processing facilities in both the Maritimes and Maine, selling products in North America and Europe.

3. The other of good news from the fishery is that a very industry representative that CG spoke to said that implementation of U.S. bioterrorism border controls had gone smoothly. The industry remains nervous about their extremely perishable cargo being harmed by border delays, but to a person the industry reps praised the way the USG had brought in the controls and said that they were having no problems with "just in time" deliveries of seafood to distributors, processors and restaurants in the U.S. Inadequate border infrastructure, in particular the Calais-St. Stephen bridge, was the biggest source of delays, they noted, not U.S. border regulations. Fish packers were particularly grateful for the advice and accessibility of Embassy CBP representative Eric Couture. CG noted the Ambassador's support for a new bridge and the excellent work that the Maine and New Brunswick communities had done to cooperate on the issue.

THEN THE NOT-SO-GOOD

4. Although the fishery has been relatively strong in recent years, other aspects of the local economy have not done as well. The forestry sector continues to shed jobs as a result of the softwood lumber duties and now the rising Canadian dollar, and local lumber firms continue to argue that they are being unfairly penalized for the activities of central and western Canadian provinces and producers. Most firms in the region are relatively small and have come under "huge financial stress," as one industry representative put it. Atlantic Canadian firms buy the vast majority of their timber at market rates from private landowners, and in fact find themselves complaining to the Canadian federal government about unfair competition resulting from non-market stumpage fee policies on crown land in central and western Canada.

5. The area is also fighting a trend toward centralizing jobs and services, something perceived to benefit Halifax at the expense of other less densely populated areas of the province. For example, the SW Shore Development Authority is mounting a major lobbying effort to keep the Royal Canadian Mounted Police from consolidating its telecommunications operations in Truro, about 50 miles north of Halifax. The dozen or so jobs that the RCMP regional telecoms office provides might not seem like much, but the Yarmouth region is prepared to fight hard to retain them, enlisting the help of federal MPs and provincial MLAs. The cancellation of the NHL season was also a blow to the area, even though it has no NHL team. The New York Islanders had signed a contract to do their pre-season training in Yarmouth

for three years, and the season's cancellation meant the loss of hotel, restaurant and ice arena revenues. Air service to Halifax has been eliminated, further creating a sense of isolation in the area.

COMMENT

16. The region around Yarmouth is in many ways typical of a number of small and medium sized communities throughout Atlantic Canada. Many were and remain heavily dependent economically on the fishery, an industry which has struggled for years with declining catches and moratoria on harvesting traditional species. The growth of the lobster and crab fisheries has brought the overall value of catches back to relatively high levels, but has not generated the same levels of employment as groundfish did. Another traditional source of jobs in parts of the Atlantic provinces, forestry, has been hurt significantly by the softwood lumber dispute, and employment in the forest products sector has suffered as a result. Offshore energy development in Nova Scotia and Newfoundland has generated jobs, but the economic benefit of the offshore is felt mainly in the capitals of Halifax and St. John's, leaving other areas behind. Like other parts of the region, Nova Scotia's southwest shore is seeking to attract new businesses to diversify the economy, but the task has not been an easy one.

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